

Short notes on:

THE BASICS ON CORPORATE GOVERNANCE

Introduction

Corporate governance generally refers to the way in which a company is run and controlled; with specific reference to a company's directors.¹ The principal, furthermore, loosely refers to the documents and regulatory regime in terms of which such control is exercised.

Overview

Corporate governance in South Africa is generally regulated in terms of the common law as well as the Companies Act 71 of 2008 as amended ("the Companies Act").²

The Companies Act sets out the powers, duties and functions of a director. It furthermore, makes provision for the liability of directors should they breach any of the statutory provisions.

South Africa, also relies upon the King IV Report which is a code of principles and recommended practices on corporate on governance.

Benefits Of Good Governance

Generally speaking, good corporate governance allows for efficient mechanisms which contribute to transparency, sustainability and accountability. In saying that good corporate governance allows for specific benefits in the following areas amongst others:³

Less Wastage: Employees who follow good corporate governance, with specific reference to ethical standards, allows for less wastage of company resources;

¹ "Corporate Governance: A South African Perspective", Association of Chartered Certified Accountants, www.accaglobal.com Accessed on: 25 January 2021.

² N Locke (2020), "Corporate Governance in South Africa", European Corporate Governance Institute, www.ecgi.global Accessed on 25 January 2021.

³ S M Radebe (2017), "The benefits Of Good Corporate Governance To Small And Medium Enterprises (SMEs) in South Africa: A View On The Top 20 And Bottom 20 JSE Listed Companies", www.businessperspectives.org Accessed on: 24 January 2020.

Transparency: Generally, companies which follow good corporate governance practices have a high level of transparency which translates throughout the company. This allows for better accountability and efficient problem solving.

Benefits in Management: Not only does good corporate governance allow for better management of a business; it reduces the risk of corruption and/or abuse of power.

Reduced Costs: Following corporate governance best practice allows for the efficient running of a business and thereby multi-level cost reduction in respect of compliance and due diligence.

Implementing Good Corporate Governance

Considering the regulatory regime that applies to corporate governance and the relative benefits derived from good corporate governance; it is important that a company establish a corporate governance framework.

A company's Memorandum of Incorporation provides a start point from which the pulse of corporate governance may be measured. However, it is important to have the relevant policy and contractual framework to give life to the principles contained therein as well as those applicable on a statutory level.

Conclusion

The relevant statutory and regulatory framework in respect of corporate governance may be complicated to navigate. It is therefore important that small businesses specifically, consult with institutions with the relevant know-how in order to establish a strong corporate governance framework.

Contact an attorney at SchoemanLaw Inc for your commercial needs.